500

Education, Training, Employment, and Social Services

Budget function 500 primarily includes federal spending within the Departments of Education, Labor, and Health and Human Services for programs that directly provide—or assist states and localities in providing—services to young people and adults. The activities that it covers include providing developmental services to low-income children, helping disadvantaged and other elementary and secondary school students, offering grants and loans to postsecondary students, and funding job-training and employment services for people of all ages. CBO estimates that total outlays for function 500 will be $63.9 billion in 2000. Discretionary outlays represent $49.8 billion of that total. Over the past decade, function 500 has experienced increases in discretionary spending in all but one year.

Federal Spending, Fiscal Years 1990-2000 (In billions of dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimate 2000
Budget Authority (Discretionary)	30.0	33.8	36.3	38.2	40.6	39.9	36.5	42.8	46.7	46.6	44.5
Outlays											
Discretionary	27.9	30.6	34.0	36.5	37.6	38.9	38.5	39.6	42.5	45.1	49.8
Mandatory	10.9	12.8	11.2	13.5	8.7	15.3	13.5	13.4	12.4	11.3	14.1
Total	38.8	43.4	45.2	50.0	46.3	54.3	52.0	53.0	55.0	56.4	63.9
Memorandum:											
Annual Percentage Change in Discretionary Outlays		9.8	11.2	7.2	3.1	3.5	-1.2	3.1	7.3	6.1	10.3

500-01 Reduce Funding for Title I, Education for the Disadvantaged

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to WODI		
2001	87	17
2002	339	271
2003	339	332
2004	339	339
2005	339	339
2001-2005	1,443	1,298
2001-2010	3,137	2,993
Relative to WIDI		
2001	116	23
2002	482	369
2003	594	538
2004	716	664
2005	838	786
2001-2005	2,746	2,380
2001-2010	8,822	8,184

SPENDING CATEGORY:

Discretionary

Title I of the Elementary and Secondary Education Act of 1965 provides two kinds of grants to school districts to fund supplementary educational services for educationally disadvantaged children. Basic grants allocate federal funds on the basis of the number of children who live in families with income below the poverty level in a particular geographic area. Concentration grants provide additional funds to school districts in counties in which the number of poor children exceeds 6,500 or 15 percent of the school-age population. Although Title I distributes funds on the basis of the number of poor students in a district, schools that receive the money may use it to provide services to any students who are performing well below their grade level.

Title I funds reached about 45,000 schools in 1999 and served approximately 10 million children. About 15,000 schools operated schoolwide programs (which benefit all of the children in a specific school), and another 30,000 participated in targeted assistance programs (which must focus the grants on the children most in need of Title I services).

This option would reduce funding for basic grants to local educational agencies by 5 percent, saving $17 million in federal outlays in 2001 and $3 billion over the 2001-2010 period. To direct cuts toward the schools with the least need for Title I services, the eligibility criteria for receiving funding could be altered. Currently, the law restricts Title I basic grant funds to school districts that have 2 percent of their children living in families with income below the poverty level and at least 10 poor children. If the Congress raised the lower bound on the criterion for the percentage of children living in poverty (for example, to 5 percent or 10 percent), funding could be maintained at its current level for the school districts that satisfied the more restrictive eligibility criteria.

Some proponents of eliminating federal funding for elementary and secondary education argue that such support represents federal intervention into matters that are primarily of state and local concern. Opponents, however, insist that federal funding augments state and local efforts and ultimately makes them more successful.

The primary argument for reducing Title I funding in particular is that there is little evidence that it improves the long-term academic performance of students who receive its services. Many studies have compared students receiving Title I services with groups of students that are similar by grade and poverty status. Such studies show that program participants do not improve their academic achievement relative to other students. However, supporters of the program maintain that Title I funds help underachieving students in schools that serve many poor children. Advocates also note that such funding is a major federal instrument for fostering school reform because states applying for the grants must develop standards specifying what public school children should know and be able to do at various points in their education.

500-02 Eliminate Funding for Bilingual Education

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to WODI		
2001	248	30
2002	248	198
2003	248	243
2004	248	248
2005	248	248
2001-2005	1,240	967
2001-2010	2,480	2,207
Relative to WIDI		
2001	252	30
2002	256	202
2003	261	251
2004	265	260
2005	270	265
2001-2005	1,304	1,008
2001-2010	2,722	2,400

SPENDING CATEGORY:

Discretionary

Federal bilingual education programs authorized under title VII of the Elementary and Secondary Education Act provide grants to school districts for instructing students who have limited proficiency in English (so-called LEP students). School districts use the funds primarily to support bilingual instructional services, to disseminate information on ways to serve students whose English is limited, and to train instructors to teach in bilingual classrooms.

Bilingual education projects funded through title VII provide a range of services to LEP students. Most schools use English as a Second Language projects to meet those students' needs. In the projects, teachers instruct children jointly in English and their native language but stress a rapid grasp of English. No more than 25 percent of federal funding for bilingual education programs may be used to support instruction conducted only in English.

Eliminating federal funding for bilingual education programs under title VII would reduce federal outlays by $30 million in 2001 and $2.2 billion over the 2001-2010 period.

Supporters of this option contend that bilingual education programs under title VII do not effectively advance literacy in the English language and slow the integration of LEP students into regular classrooms. They maintain that the federal government should not fund programs requiring the use of a student's native language but should encourage school districts to move LEP students into regular classrooms as quickly as possible. Many supporters of this option argue that "immersion" programs, in which LEP students are instructed solely in English, are the most effective means to teach English to such students.

Defenders of bilingual education assert that it serves a valuable purpose. By introducing students to the English language while continuing instruction in their native language, the program helps students acquire knowledge in a variety of academic subjects as they develop their English literacy skills. As a result, supporters argue, students do not fall behind their schoolmates in other subjects during their transition to English-only instruction.

500-03 Reduce Funding to School Districts for Impact Aid

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to WODI		
2001	73	66
2002	73	71
2003	73	73
2004	73	73
2005	73	73
2001-2005	364	356
2001-2010	729	720
Relative to WIDI		
2001	74	67
2002	75	74
2003	77	76
2004	78	78
2005	79	79
2001-2005	383	373
2001-2010	799	789

SPENDING CATEGORY:

Discretionary

The Impact Aid program, authorized under title VIII of the Elementary and Secondary Education Act, provides funds to school districts affected by activities of the federal government. The program pays districts for federally connected pupils and for school construction in areas where the federal government has acquired a significant portion of the real property tax base, thereby depriving the school district of a source of revenue.

For a school district to be eligible for Impact Aid's basic support payments, a minimum of 3 percent (or at least 400) of its pupils must be associated with activities of the federal government—for example, pupils whose parents both live and work on federal property (including Indian lands), pupils whose parents are in the uniformed services but live on private property, and pupils who live in federally subsidized low-rent housing. In addition, aid goes to a few districts enrolling at least 1,000 pupils (and 10 percent of enrollment) whose parents work but do not live on federal property. In 1999, approximately 1,500 local education agencies received Impact Aid.

This option would restrict Impact Aid to the school districts that are most affected by federal activities—districts with children who live on federal property and have a parent who is in the military or is a civilian federal employee and districts with children who live on Indian lands. The restriction would reduce federal outlays by $720 million during the 2001-2010 period. The Administration's budget for fiscal year 2000 included this option in its list of recommendations.

Proponents of this alternative argue that restricting Impact Aid payments to students whose presence puts the greatest burden on school districts is appropriate, given the limited funding available for federal discretionary programs. Opponents argue that eliminating payments for other types of children associated with federal activities could significantly affect certain districts—for example, those in which large numbers of military families live off-base but shop at military exchanges, which do not collect state and local sales taxes.

500-04 Limit Federal Funding for State Education Reform

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to WODI		
2001	88	7
2002	131	73
2003	131	117
2004	131	127
2005	131	130
2001-2005	611	453
2001-2010	1,264	1,106
Relative to WIDI		
2001	98	204
2002	155	278
2003	170	188
2004	186	183
2005	201	187
2001-2005	810	1,039
2001-2010	2,060	2,191

SPENDING CATEGORY:

Discretionary

The federal government currently supports education reform at the state and local levels through two programs that have related purposes but quite different structures. The first program, the Innovative Education Program Strategies (IEPS) state grants (authorized under title VI of the Elementary and Secondary Education Act), provides relatively untargeted funding in the form of block grants to supplement state and local funding for elementary and secondary education reform. Recipients may use funds from the grants to carry out programs in a number of broad categories, but those activities need not be tied to any specific reform plan or set of standards.

In contrast, funds under Goals 2000 may only be used to pursue a systemic model of reform, which involves setting goals and standards for reform, developing benchmarks to promote progress toward the goals, and pursuing reform at all levels of the education system. Activities that are consistent with that model include developing state standards for reform, aligning local curricula with those standards, paying for professional development activities for teachers and other staff, and purchasing technology.

Reducing federal funding for education reform activities now funded under IEPS state grants and Goals 2000 by 15 percent would cut federal outlays by $7 million in 2001 and $1.1 billion over the 2001-2010 period. Lawmakers could retain the current relative distribution of funding between the two types of approaches or shift funding to favor one approach or the other.

Proponents of decreasing federal funding for both types of education reform argue that state and local governments are already carrying out school reforms on their own and do not need additional federal support. Federal funding for education reform is unnecessary, say those proponents, and constitutes needless federal intervention into matters that are primarily of state and local concern. Opponents of limiting federal support insist that federal funds augment ongoing state and local reform efforts and contribute to their faster and more complete implementation.

Among supporters of some federal role in education reform, opinions differ about which type of program should receive the larger share of federal funding. Proponents of more funding for the activities currently supported under the Goals 2000 program argue that those activities are better designed to foster systemic reform. Because Goals 2000 links funding to a state reform plan, supporters maintain that the funds are better directed and have a greater impact on the quality of schools within a state. In contrast, supporters of the title VI block grants insist that those grants are a better tool for supplementing state education reform. By offering greater flexibility, supporters say, block grants allow states to fund the local reforms that are best suited to particular communities—even if those reforms are not tied to a larger state effort.

500-05 Eliminate Funding for Federal Initiatives to Reduce Class Size

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to WODI		
2001	400	65
2002	1,300	910
2003	1,300	1,235
2004	1,300	1,300
2005	1,300	1,300
2001-2005	5,600	4,810
2001-2010	12,100	11,310
Relative to WIDI		
2001	407	66
2002	1,329	927
2003	1,350	1,272
2004	1,374	1,359
2005	1,397	1,383
2001-2005	5,856	5,006
2001-2010	13,202	12,279

SPENDING CATEGORY:

Discretionary

For fiscal year 2000, the Congress appropriated $1.3 billion to reduce the size of elementary school classes nationwide. The law also allows school districts to use up to 25 percent of local grants to improve teacher quality. Moreover, districts in which class sizes have already been reduced can use the funds to improve the quality of teachers in the lower grades or to hire more teachers for upper grades. By eliminating funding for the program, the federal government could save $11.3 billion in outlays over the next 10 years.

In recent reviews of the scientific evidence for the benefits of small classes, the results of one study, Tennessee's Project STAR, are prominent because of the study's rigorous experimental design. Children entering kindergarten were randomly assigned either to special small classes of between 13 and 17 students or to "regular" classes of between 22 and 26 students. With only few exceptions, students remained in the same size class to which they were initially assigned through the end of the third grade.

Testing showed that students in the small classes outperformed students in the regular classes on both standardized and curriculum-based tests. In the early grades, the positive effect of small classes on achievement among minority students was twice that for nonminority students. Through eighth grade, students who had been in the small classes showed a decreasing but still significantly higher level of academic achievement than students in the regular classes.

Proponents of eliminating federal funding for class-size initiatives see limitations to Project STAR's success. If education is cumulative, with each year building on what was learned the year before, children assigned to a small class would be expected to pull further away from their counterparts in a regular class for each year they remained in the small class. In fact, the evidence shows such advances for youngsters in small classes only at the end of kindergarten and, to a lesser extent, at the end of first grade. Critics of a policy advocating small class sizes also point to other evidence suggesting that class size must fall to about 15 students before it has an effect. Reducing class sizes to those levels would be quite expensive, and the costs would increase over time. More classrooms would have to be built; new teachers would require services such as staff training; and as they gained experience, those teachers' salaries would increase. Finally, the critics note that strategies such as providing one-on-one or peer tutoring as well as cooperative learning achieve results similar to those gained from reducing class size—but at a fraction of the cost.

Supporters of funding for initiatives to decrease class sizes find that approach attractive because it moves resources directly to the classroom and to students. Furthermore, many analysts have concluded that enrollment in the early grades in small classes of about 18 or fewer students can have positive effects on a student's academic achievement, compared with enrollment in classes of between 25 and 30 students. Minority students in particular seem to benefit from small classes. In addition, most of the benefits students gain from being in a small class appear to persist into later grades.

500-06 Consolidate and Reduce Funding for Several Elementary and Secondary Education Programs

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to WODI		
2001	328	24
2002	479	291
2003	479	438
2004	479	471
2005	479	478
2001-2005	2,246	1,702
2001-2010	4,643	4,099
Relative to WIDI		
2001	384	28
2002	613	345
2003	697	563
2004	783	677
2005	869	770
2001-2005	3,346	2,383
2001-2010	2,963	2,355

SPENDING CATEGORY:

Discretionary

Current federal programs to aid elementary and secondary education are generally categorical—that is, they focus on specific populations of students with special needs (for example, disabled students or educationally disadvantaged students), on subject areas of high priority to policymakers (such as mathematics or science), or on specific approaches to improving education (for instance, charter schools). The Congress adopted categorical forms of federal aid in certain cases because of a belief that many states would be unable or unwilling to commit funds to those priorities. Categorical programs focusing on education reform and school innovation, for which the Congress appropriated a combined $4.8 billion in fiscal year 2000, could be consolidated under a single block grant. Funds from the grant could be used for any of the purposes previously authorized for the categorical programs.

To reduce federal outlays, the federal government could trim the consolidated block grant for education reform and school innovation by, for example, 10 percent. Doing so would save $24 million in 2001 and $4.1 billion over 10 years.

Proponents of block grants for education point out that they give states and local education agencies the flexibility to direct federal aid toward the schools' greatest needs. Block grants can circumvent the administrative requirements accompanying categorical aid programs, which may limit a school's ability to implement comprehensive reforms. Block grants also avoid the problems created within a school by a proliferation of categorical programs that may lead to gaps in a child's instructional program in some areas and duplication in others. Moreover, by requiring that funds be clearly associated with the intended beneficiaries, categorical grants may encourage schools to partially segregate children with special needs, track students by achievement level, or perpetuate lower expectations of their performance.

Opponents of education block grants argue that they dilute the effect of federal funding on national educational priorities and provide less assurance than categorical funding that federal aid will be used to meet national objectives. Moreover, opponents point out that alternative means, such as waivers, are now available to give state and local education agencies increased flexibility in using funds from categorical programs without sacrificing federal priorities.

500-07 Reduce Spending and Increase the Targeting of Funds for Safe and Drug Free Schools and Communities

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to WODI		
2001	41	5
2002	91	64
2003	91	86
2004	91	91
2005	91	91
2001-2005	405	336
2001-2010	859	791
Relative to WIDI		
2001	46	5
2002	106	71
2003	116	103
2004	127	119
2005	138	129
2001-2005	532	428
2001-2010	1,389	1,242

SPENDING CATEGORY:

Discretionary

The Safe and Drug Free Schools and Communities Act (SDFSCA) funds programs in schools, communities, and institutions of higher education to address the increasing use of illegal substances such as alcohol, cigarettes, and drugs among youth and the related issue of violence in schools. Approximately 97 percent of the nation's school districts receive funding under the act, and generally students in grades 5 through 12 participate in the programs. The wide distribution of SDFSCA funding has led to questions about whether such aid might be more effective if it was focused on areas or groups of people with the greatest need.

In fiscal year 2000, states received $445 million of the program's total funding of $565 million. Half of each state's award is based on its school-age population, and half is based on the number of poor children in the state. The law requires states to distribute 80 percent of their grants to school districts, primarily on the basis of enrollment. The remaining 20 percent of state grants go to the governors for services to groups not served by the education system, such as incarcerated youth and school dropouts. Little evidence is available to date about whether SDFSCA programs reduce rates of substance use and violence among youth. However, research shows that the programs have been effective in increasing awareness about the consequences of drug use.

This option would reduce funding to the states by 15 percent and require them to direct the remaining funds toward areas or groups of people considered most likely to benefit from such grants. The option would reduce federal outlays by $5 million in 2001 and $791 million over the 2001-2010 period.

To better target SDFSCA grants, the federal government could change the formula for allocating funds among the states, reduce the number of school districts within states that may receive grants, or target certain age groups within the schools. For instance, federal grant amounts could be tied to a "need" indicator such as state rates of crime or drug use. Similarly, states in their turn could be required to allocate grants to school districts either on the basis of need or through a competitive process. The federal government could also require states to focus funds on children in the earlier grades. That proposal stems from research indicating that prevention programs might be most effective in changing those students' attitudes about drugs and violence.

Focusing SDFSCA funds, as this option provides, could have several different effects. Districts with less crime and fewer drug problems might not receive grants, whereas districts with higher levels of need might receive grants large enough to implement somewhat more comprehensive drug and violence prevention programs than are possible with the current level and distribution of federal funds. Yet even in areas with low rates of crime and drug use, prevention programs may serve a proactive function by raising people's awareness of the problem. If such programs were eliminated, drug use and violence might accelerate and lead to even more costly interventions on the part of school systems and the community.

500-08-A Eliminate Interest Subsidies on Loans to Graduate Students

	Outlay Savings (Millions of dollars)
2001	365
2002	520
2003	520
2004	535
2005	545
2001-2005	2,485
2001-2010	5,340

SPENDING CATEGORY:

Mandatory

RELATED OPTIONS:

500-08-B and 500-08-C

Federal student loan programs afford students and their parents the opportunity to borrow funds to attend postsecondary schools. Those programs offer three types of loans: "subsidized" loans to students who are defined as having financial need, "unsubsidized" loans to students regardless of need, and loans to parents of students. Two programs provide all three types of loans; they are the Federal Family Education Loan Program, in which loans made by private lenders are guaranteed by the federal government, and the Ford Federal Direct Student Loan Program, in which the government makes the loans through schools. With all of the loans, borrowers benefit because the interest rate charged is lower than the rates most of them could secure from alternative sources. With subsidized loans, borrowers benefit further because the federal government pays the interest on the loans while students are in school and during a six-month grace period after they leave.

Federal costs could be reduced by limiting eligibility for subsidized loans to undergraduate students. Graduate students could substitute unsubsidized loans for the subsidized loans they had received previously. That change would reduce federal outlays by $365 million in 2001 and $5.3 billion over the 2001-2010 period.

Restricting subsidized loans to undergraduate students would direct funds toward achieving the goal of making an undergraduate education affordable. Because graduate students have completed their undergraduate work, they are outside the group of students that constitutes the federal government's particular focus. Under this option, graduate students who took unsubsidized loans to replace the subsidized loans they had lost would ultimately be responsible for somewhat higher loan payments. However, the federal student loan programs have several options for making repayment manageable for students who have high loan balances or difficult financial circumstances.

Nevertheless, graduate students often amass large student loan debts because of the number of years of schooling required for their degrees. Without the benefit of interest forgiveness while they were enrolled in school, their debt would be substantially larger when they entered the repayment period because the interest on the amounts they had borrowed over the years would be added to their loan balance.

500-08-B Increase Origination Fees for Unsubsidized Loans to Students and Parents

	Outlay Savings (Millions of dollars)
2001	100
2002	155
2003	160
2004	160
2005	165
2001-2005	740
2001-2010	1,655

SPENDING CATEGORY:

Mandatory

RELATED OPTIONS:

500-08-A and 500-08-C

The government recoups part of the cost of insuring student loans by collecting 3 percent of the face value of each loan from students and their parents as an origination fee. (Guaranty agencies may collect an additional 1 percent of the face value as an insurance fee to replenish the federal reserve fund they manage, but since 1998, very few have done so.) The fees are charged on subsidized, unsubsidized, and PLUS loans (Parent Loans to Undergraduate Students).

Under this option, the origination and insurance fees in the Federal Family Education Loan Program (FFELP) would be set to equal the origination fee on the comparable loan in the Ford Federal Direct Student Loan Program. In addition, fees in both programs on unsubsidized and PLUS loans would be 1 percent higher (or 4 percent) than fees on subsidized loans (which are 3 percent). To implement the changes, the Congress would have to require the guaranty agencies to collect the 1 percent insurance fee on all FFELP loans and the Department of Education to collect a 1 percent higher fee on the FFELP's counterpart loan in the direct student loan program. Those changes would reduce program outlays by $100 million in 2001 and $1.7 billion over the 2001-2010 period.

An argument for the change is that even with the higher origination fees, many students would still benefit substantially from the loans, in part because the government guarantees them. The guarantee means that lenders are willing to make loans to students who do not have a credit history and to make them at interest rates below those available on most private loans. Furthermore, during the first five years of repayment, many borrowers can subtract the interest on the loans from their income for the purpose of calculating federal income taxes. And because the change in the origination fees would affect only unsubsidized and PLUS loans, it would produce savings without affecting the value of subsidized loans received by the neediest students.

Increasing the origination fees, however, would reduce the net proceeds from any given loan. As a result, students would need to secure larger loans to finance the same amount of education. That could pose a problem for many students who were already borrowing the maximum allowed by law and would not be able to borrow more.

500-08-C Restrict Eligibility for Subsidized Student Loans by Including Home Equity in the Determination of Financial Need

	Outlay Savings (Millions of dollars)
2001	65
2002	90
2003	90
2004	95
2005	95
2001-2005	435
2001-2010	910

SPENDING CATEGORY:

Mandatory

RELATED OPTIONS:

500-08-A and 500-08-B

The Higher Education Amendments of 1992 eliminated home equity from consideration in determining how much a student's family is expected to contribute to cover educational expenses—a change that has made it easier for many students to obtain subsidized student loans. The amount a family is expected to contribute is determined by what is essentially a progressive tax formula. In effect, federal calculations "tax" family incomes and assets above the amounts assumed to be required for a basic standard of living. Since 1992, the definition of assets has excluded home equity for all families and excluded all assets for applicants whose income is below $50,000.

Under this option, home equity would be included in calculating a family's need for financial aid for postsecondary education. In addition, the income threshold under which most families are not asked to report their assets would be lowered from $50,000 to its previous level of $15,000. Home equity would be "taxed," as other assets are now, at rates of up to about 5.6 percent after a deduction for allowable assets. The change would result in fewer students qualifying for subsidized loans or more students qualifying for subsidized loans of smaller amounts. Overall, by including home equity, outlays could be reduced by about $65 million in 2001 and $910 million during the 2001-2010 period.

Not counting home equity gives families who own a house an advantage over those who do not. In today's economy, borrowing against home equity at an affordable interest rate is relatively simple. If families were unable or unwilling to take out home equity loans, students could take unsubsidized loans to finance the family's expected contribution. That approach would cause relatively little difficulty for families' budgets because the interest payments on unsubsidized loans can be postponed while the student is in school. The interest is then simply added to the accumulated loan balance when the student leaves school and begins repayment.

However, because increases in incomes have not always kept pace with increases in housing prices, some families might have difficulty repaying their mortgage if they borrowed against home equity to finance their children's education. In addition, having to value their home and other assets would complicate the loan application process for many families.

500-09 Reduce Special Allowance Payments to Lenders in the Student Loan Program

	Outlay Savings (Millions of dollars)
2001	235
2002	385
2003	345
2004	0
2005	0
2001-2005	965
2001-2010	965

SPENDING CATEGORY:

Mandatory

The largest federal student loan program is the Federal Family Education Loan Program, which guarantees 98 percent reimbursement on defaulted loans made by private lenders to eligible students. Under the program, students and the federal government together pay lenders an interest rate each year that is based on changes in a reference rate determined in the financial markets. The federal payments are called special allowance payments; their purpose is to approximate a fair market return to lenders while subsidizing the cost to students of financing their education. One such payment, which was added by the Higher Education Amendments of 1998 and modified in 1999, applies to subsidized and unsubsidized loans made after October 1, 1998, and before July 1, 2003. Under that provision, the federal government will make payments to lenders that CBO estimates will average about 0.35 percentage points between October 1, 2000, and July 1, 2003. This option would eliminate that payment on all new subsidized and unsubsidized loans. Savings would total $235 million in 2001 and $965 million over the 2001-2003 period, at the end of which the provision would expire.

An argument for reducing the special allowance payment is that in most cases, it is not needed for lenders to achieve a fair market rate of return on their loans. By using a reference rate that closely mirrors the interest rate that lenders pay on their own debts, the government has assured lenders a stable net income from such loans. Moreover, nearly the entire loan amount is guaranteed by the federal government. In addition, a 1998 study by the Department of the Treasury concluded that even with a 0.5 percentage-point lower yield on loans made under the program, lenders would earn returns that, on average, would be sufficient to make the business attractive.

The argument for retaining the payment is that without it, some lenders would, indeed, receive unacceptably low rates of return and leave the program. Such pruning of the lender ranks could create difficulties for financial aid officers who administer student financial aid at postsecondary institutions and for students who seek loans. In general, student loans are quite small compared with, for example, mortgage loans, but the costs of servicing them are not proportionately lower. As a result, the interest rate necessary to yield sufficient income to cover the costs of servicing needs to be higher. Furthermore, servicing costs vary by the size of the loan and the characteristics of the student, so reducing the profit margin for lenders might induce them to stop making loans to some students. Another risk of paying lenders less than a fair market rate of return is that they might substantially reduce their investments in improving the quality of loan servicing or stop adapting their package of loan services to the particular needs of the institutions that participate in the loan program.

500-10 Eliminate Administrative Fees Paid to Schools in the Campus-Based Student Aid and Pell Grant Programs

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to WODI		
2001	164	18
2002	164	159
2003	164	164
2004	164	164
2005	164	164
2001-2005	820	669
2001-2010	1,640	1,489
Relative to WIDI		
2001	167	19
2002	169	161
2003	172	170
2004	175	173
2005	178	176
2001-2005	861	700
2001-2010	1,798	1,624

SPENDING CATEGORY:

Discretionary

In two types of federal student aid programs, the government pays schools to administer the programs or to distribute the funds, or both. In campus-based aid programs, which include Federal Supplemental Educational Opportunity Grants, Federal Perkins loans, and Federal Work-Study Programs, the government distributes funds to institutions that in turn award grants, loans, and jobs to qualified students. Under a statutory formula, institutions may use up to 5 percent of program funds for administrative costs. Similarly, in the Federal Pell Grant Program, the schools distribute the funds, although eligibility is determined solely by federal law. The Higher Education Act provides for a federal payment of $5 per Pell grant to reimburse schools for a share of their costs of administering the program.

The federal government could save about $144 million a year if schools were not allowed to use federal funds from the campus-based aid programs to pay for administrative costs. The government could save another $20 million if the $5 payment to schools in the Pell Grant program was eliminated. Together, those options would produce savings of $18 million in 2001 and $1.5 billion over the 2001-2010 period.

Arguments can be made both for eliminating the administrative payments and for retaining them. On the one hand, institutions benefit significantly from participating in federal student aid programs even without the payments because the aid makes attendance at the schools more affordable. In 2000, students will receive an estimated $10.9 billion in federal funds under the Pell Grant and campus-based aid programs.

On the other hand, the institutions do, indeed, incur costs for administering the programs. Furthermore, if the federal government does not pay those expenses, schools will simply pass along the costs to students in the form of higher tuition or fees.

500-11 Eliminate the Leveraging Educational Assistance Partnership Program

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to WODI		
2001	40	8
2002	40	41
2003	40	41
2004	40	40
2005	40	40
2001-2005	200	170
2001-2010	400	370
Relative to WIDI		
2001	41	8
2002	41	41
2003	42	41
2004	43	42
2005	43	43
2001-2005	210	175
2001-2010	439	401

SPENDING CATEGORY:

Discretionary

The Leveraging Educational Assistance Partnership (LEAP) program, formerly the State Student Incentive Grant program, helps states provide financially needy postsecondary students with grant and work-study assistance while they attend either academic institutions or schools that teach occupational skills. States must match federal funds at least dollar for dollar and also meet maintenance-of-effort criteria. Unless excluded by state law, all public and private nonprofit postsecondary institutions in a state are eligible to participate in the LEAP program.

Eliminating the program would save $8 million in 2001 and $370 million over the 2001-2010 period. The extent of the actual reduction in student assistance would depend on the responses of states, some of which would probably make up at least part of the lost federal funds.

Proponents of eliminating this program argue that it is no longer needed to encourage states to provide more student aid. When the LEAP program was first authorized in 1972, only 28 states had student grant programs; now, all 50 states provide such grants.

An argument against eliminating the LEAP program is that not all states would increase their student aid appropriations to make up for the lost federal funding and some might even reduce them. In that case, some students who received less aid might not be able to enroll in college or might have to attend a less expensive school.

500-12 End New Funding for Perkins Loans

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to WODI		
2001	100	10
2002	100	97
2003	100	100
2004	100	100
2005	100	100
2001-2005	500	407
2001-2010	1,000	907
Relative to WIDI		
2001	102	10
2002	103	99
2003	105	103
2004	107	105
2005	109	107
2001-2005	526	425
2001-2010	1,097	988

SPENDING CATEGORY:

Discretionary

The federal government provides student loans through three programs: Federal Family Education Loans, Ford Federal Direct Student Loans, and Federal Perkins Loans (formerly National Defense Student Loans). The Perkins Loan program is the smallest, with allocations made directly to approximately 2,000 postsecondary institutions. Financial aid administrators at those schools then determine which eligible students receive Perkins loans. During the 1999-2000 academic year, approximately 700,000 students will receive such loans.

The money for Perkins loans comes from an institutional revolving fund, totaling approximately $1.1 billion in 2000, that has four sources: collections by the schools of payments on prior year student loans ($945 million in 2000), federal payments for loan cancellations granted in exchange for teaching in high-need areas or for military or public service ($30 million in 2000), federal contributions from new appropriations ($100 million in 2000), and institutional matching contributions that for each school must equal at least one-third of the federal contribution.

Eliminating new appropriations for federal contributions would lower outlays by $907 million during the 2001-2010 period. The extent of the reduction in funds for student loans would depend on the responses of postsecondary institutions, some of which would make up part or all of the lost federal money. If institutions made up none of the lost federal funds but continued to contribute to the program at the level of their previous matching share, approximately 64,000 fewer Perkins loans would be made.

Reflecting the view that the main goal of federal student aid is to provide access to postsecondary education for needy students, the primary justification for this option is that the program may be failing to provide equal access to equally needy students. Federal contributions are allocated, first, on the basis of an institution's 1985 allocation and, second, on the basis of the financial need of its students. Because campus-based aid is tied to specific institutions, students with greater need at poorly funded schools may receive less than those with less need at well-funded institutions.

Eliminating new funds for Perkins loans, however, would reduce the discretion of postsecondary institutions in packaging aid to address the special situations of some students. It would also reduce total available aid. Moreover, Perkins loans disproportionately help students at private nonprofit institutions (whose students get almost half of the aid, compared with about 20 percent of Pell Grant aid). Thus, cutting Perkins loans would make that type of school less accessible to needy students.

500-13 Reduce Funding for the Arts and Humanities

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to WODI		
2001	120	75
2002	120	110
2003	170	165
2004	170	170
2005	170	170
2001-2005	750	690
2001-2010	1,600	1,540
Relative to WIDI		
2001	145	95
2002	170	150
2003	245	235
2004	275	270
2005	310	300
2001-2005	1,145	1,050
2001-2010	3,160	3,020

SPENDING CATEGORY:

Discretionary

The federal government subsidizes various activities related to the arts and humanities. In 2000, combined funding for several programs totaled just over $1 billion; it included federal appropriations for the Smithsonian Institution ($440 million), the Corporation for Public Broadcasting ($310 million), the National Endowment for the Humanities ($116 million), the National Endowment for the Arts ($98 million), the National Gallery of Art ($68 million), the John F. Kennedy Center for the Performing Arts ($34 million), and the Institute of Museum Services ($24 million).

Cutting funding for those programs by 15 percent would reduce federal outlays over the 2001-2010 period by over $1.5 billion. (Savings from a reduction in funding for the Corporation for Public Broadcasting would not be realized until 2003 because the program receives its appropriations two years in advance.) The actual effect on arts and humanities activities would depend in large part on the extent to which other funding sources—states, localities, individuals, firms, and foundations—increased their contributions.

Some proponents of reducing or eliminating funding for the arts and humanities argue that support of such activities is not an appropriate role for the federal government. Other advocates of cuts suggest that the expenditures are particularly unacceptable when programs addressing central federal concerns are not being funded fully. Some federal grants for the arts and humanities already require nonfederal matching contributions, and over half of all museums charge or suggest that patrons pay an entrance fee. Those practices could be expanded to accommodate a reduction in federal funding.

However, critics of cuts in funding contend that alternative sources would be unlikely to fully offset the drop in federal subsidies. Subsidized projects and organizations in rural or low-income areas might find it especially difficult to garner increased private backing or sponsorship. Thus, a decline in government support, opponents argue, would reduce activities that preserve and advance the nation's culture and that introduce the arts and humanities to people who might not otherwise have access to them.

500-14 Eliminate Funding for the Senior Community Service Employment Program

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to WODI		
2001	440	80
2002	440	400
2003	440	440
2004	440	440
2005	440	440
2001-2005	2,200	1,800
2001-2010	4,400	4,000
Relative to WIDI		
2001	445	80
2002	455	410
2003	460	455
2004	470	465
2005	480	470
2001-2005	2,310	1,880
2001-2010	4,825	4,360

SPENDING CATEGORY:

Discretionary

The Senior Community Service Employment Program (SCSEP) funds part-time jobs for people age 55 and older who are unemployed and who meet income eligibility guidelines. To be eligible to participate in the program in 1999, an individual's annual income had to be below roughly $10,000, which was 125 percent of the federal poverty guideline for a person living alone. Through SCSEP, which is authorized under title V of the Older Americans Act, grants are awarded to several nonprofit organizations, the U.S. Forest Service, and state agencies. The sponsoring organizations and agencies pay participants to work in part-time community service jobs, up to a maximum of 1,300 hours per year.

SCSEP participants work in schools, hospitals, and senior citizen centers and on beautification and conservation projects. They are paid the higher of the federal or state minimum wage or the local prevailing rate of pay for similar employment. Participants also receive annual physical examinations, training, personal and job-related counseling, and assistance to move into private-sector jobs when they complete their projects.

Eliminating SCSEP would reduce outlays over the 2001-2010 period by about $4 billion. Opponents of the program maintain that it offers few benefits aside from income support and that the presumed value of the work experience gained by SCSEP participants would generally be greater if the experience was provided to equally disadvantaged young people, who have longer careers over which to benefit. In addition, the costs of producing the services now provided by SCSEP participants could be borne by the organizations that benefit from their work; under current law, those organizations bear only 10 percent of such costs. That shift would ensure that only those services that were most highly valued would be provided.

SCSEP, however, is the major federal jobs program aimed at low-income older workers, providing jobs for nearly 100,000 of them in 1998. Eliminating the program could cause hardship for older workers who were unable to find comparable unsubsidized jobs. In general, older workers are less likely than younger workers to be unemployed, but those who are take longer to find work. Moreover, without SCSEP, community services might be reduced if nonprofit organizations and states were unwilling or unable to increase expenditures to offset the loss of federal funds.

500-15 Eliminate Funding for the National and Community Service Act

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to WODI		
2001	415	40
2002	430	190
2003	430	300
2004	435	370
2005	435	405
2001-2005	2,145	1,305
2001-2010	4,320	3,505
Relative to WIDI		
2001	430	40
2002	455	195
2003	470	315
2004	480	385
2005	490	430
2001-2005	2,325	1,365
2001-2010	4,950	3,820

SPENDING CATEGORY:

Discretionary

As a reward for providing community service, students may receive aid from the federal government to attend postsecondary schools through the National and Community Service Act. The act funds the AmeriCorps Grants Program, the National Civilian Community Corps (NCCC), Learn and Serve America, and the Points of Light Foundation, with AmeriCorps receiving the majority of the total appropriation. Those programs provide assistance for education, public safety, the environment, and health care, among other services. In many cases, the programs build on existing federal, state, and local programs. The AmeriCorps Grants Program and NCCC provide participants with an educational allowance, a stipend for living expenses, and, if they need them, health insurance and child care. Learn and Serve America participants generally do not receive stipends or education awards but may receive academic credit toward their degrees. Much of the total financial resources available for the AmeriCorps Grants Program comes from state and local governments and from private enterprises.

Eliminating federal funding for those programs would save $3.5 billion over the 2001-2010 period. (The estimate includes costs associated with terminating the programs.) Alternatively, some of the savings from eliminating the programs could be redirected to the Federal Pell Grant Program, which is more closely targeted toward low-income students.

Some critics who favor eliminating the programs maintain that community service should be voluntary rather than an activity for which a person is paid. An additional justification for this option is based on the view that the main goal of federal aid to students should be to provide access to postsecondary education for people with low income. Because participation in the programs is not based on family income or assets, funds do not necessarily go to the poorest students.

Supporters of the programs argue, however, that in addition to providing valuable services, the programs enable many students to attend postsecondary schools. Moreover, they believe that opportunities to engage in national service can promote a sense of idealism among young people and should be supported.

500-16 Reduce Funding for Head Start

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to WODI		
2001	1,247	598
2002	1,698	1,574
2003	1,698	1,667
2004	1,698	1,682
2005	1,698	1,682
2001-2005	8,039	7,203
2001-2010	16,529	15,612
Relative to WIDI		
2001	1,312	629
2002	1,849	1,687
2003	1,941	1,867
2004	2,036	1,975
2005	2,131	2,068
2001-2005	9,270	8,226
2001-2010	21,404	20,021

SPENDING CATEGORY:

Discretionary

Since 1965, Head Start has funded grants to local agencies to provide comprehensive services to foster the development of preschool children from low-income families. The services supported by Head Start address the health, education, and nutrition of the children as well as their social behavior. Funds are awarded to about 1,500 grantees at the discretion of the Secretary of Health and Human Services, using state allocations determined by formula. Grantees must contribute 20 percent of program costs from nonfederal funds unless they obtain a waiver. In 1999, the program served about 835,000 children, approximately 60 percent of whom were 4 years old. The average cost per child in Head Start that year was about $5,400 (compared with $7,200 per pupil spent by public elementary and secondary schools).

Reducing the appropriation for Head Start in 2001 and subsequent years to its level for 1996 would reduce federal costs by about $600 million in 2001 and nearly $16 billion over the 2001-2010 period.

The primary argument for reducing funding for Head Start is that there is little evidence of its long-term effectiveness. The evidence that does exist suggests that Head Start does not improve the prospects of participants over the long run. Although the program produces gains in children's intellectual, emotional, and social development after they have been in the program a year, those gains diminish and disappear as participants move through elementary school. Some model early-childhood education efforts have provided evidence of long-term improvement in the lives of participants, but those projects were much more intensive—and expensive—than Head Start and were initiated several decades ago, when the social environment of the country, especially in urban areas, was different. Furthermore, Head Start enrollment and funding have expanded rapidly during the 1990s, and some people question the ability of the program to effectively absorb the additional funds and students. Concerns have been raised as well about the quality of the program's services, including the limited qualifications of some staff.

The main argument against reducing the appropriation for Head Start is that it appears to modestly lessen the probability that participants will be placed in special education programs and to increase the likelihood that students will be promoted to higher grades. Proponents also argue that Head Start enrolls the most severely disadvantaged children and consequently should be credited with preventing participants from falling even further behind in their cognitive, social, and emotional development before they enter elementary school. An additional argument for not cutting Head Start funding is that the program has taken several steps to improve the quality of services that its grantees provide. For example, 50 percent of the increase in appropriations for 2000 must be used for quality improvement activities. A new data collection system is also being developed to produce longitudinal data on a nationally representative sample of participants.

500-17 Reduce the 50 Percent Floor on the Federal Share of Foster Care and Adoption Assistance Payments

	Savings (Millions of dollars) Budget Authority	Outlays
2001	120	90
2002	130	120
2003	140	130
2004	150	140
2005	160	160
2001-2005	700	640
2001-2010	1,670	1,610

SPENDING CATEGORY:

Mandatory

RELATED OPTION:

500-18

The Foster Care and Adoption Assistance programs provide benefits and services to children who are in need. Foster Care supports eligible low-income children who must reside in foster homes; Adoption Assistance subsidizes families that adopt eligible low-income children with special needs.

The federal government and the states jointly pay for the benefits provided by the two programs. The state and federal shares are based on the federal matching rate for medical assistance programs, which depends on a state's per capita income. Higher-income states pay for a larger share of program benefits than do lower-income states. Currently, the federal share for the Foster Care and Adoption Assistance programs can vary between 50 percent and 83 percent. The federal government now pays a 50 percent share in 10 jurisdictions: Colorado, Connecticut, Delaware, the District of Columbia, Illinois, Maryland, Massachusetts, New Hampshire, New Jersey, and New York.

This option would lower the floor on the federal share of benefits from 50 percent to 45 percent. The Congressional Budget Office estimates that this option would save $90 million in 2001 and about $1.6 billion through 2010. Those amounts assume, however, that states would partially offset their higher costs by reducing benefits.

With the 45 percent floor on the federal share of benefits, a state's contribution would relate more directly to its per capita income. As a result, higher-income states that chose to be relatively generous would pay a larger share of their higher benefits. Nevertheless, seven of the 10 jurisdictions would be paying less than the formula alone would require.

In part, however, higher incomes and benefits in the affected jurisdictions reflect higher costs of living and not simply greater wealth and generosity. To accommodate the drop in funding, the jurisdictions would have to reduce Foster Care and Adoption Assistance benefits, cut spending for other services, or raise taxes. If, as CBO's estimates assume, states chose to compensate for their higher costs by partially reducing benefits, the programs' beneficiaries would be adversely affected.

Under the Unfunded Mandates Reform Act of 1995, reductions in federal funding for certain entitlement grant programs—including Foster Care and Adoption Assistance—are considered mandates on state governments if the states lack authority to amend their programmatic or financial responsibilities to offset the loss of funding. Because some states may not have sufficient flexibility within the Foster Care and Adoption Assistance programs to make such changes, this option could constitute an unfunded federal mandate on those jurisdictions under the law.

500-18 Reduce the Federal Matching Rate for Administrative and Training Costs in the Foster Care and Adoption Assistance Programs

	Savings (Millions of dollars) Budget Authority	Outlays
2001	140	115
2002	155	150
2003	170	165
2004	185	180
2005	200	195
2001-2005	850	805
2001-2010	2,150	2,085

SPENDING CATEGORY:

Mandatory

RELATED OPTION:

500-17

The Foster Care and Adoption Assistance programs provide benefits and services to eligible low-income children and families. The federal government pays 50 percent of most administrative costs for the programs, including those for child placement services, and states and local governments pay the remaining share. However, the costs of certain activities are matched at higher rates to induce local administrators to undertake more of them than they would if costs were matched at the 50 percent rate. For example, the federal government pays 75 percent of the costs of training administrators and participating parents.

Reducing the matching rates to 50 percent for all administrative and training expenses in the Foster Care and Adoption Assistance programs would decrease federal outlays by $115 million in 2001 and by almost $2.1 billion over the 2001-2010 period.

Cutting the higher matching rates to 50 percent would be appropriate if the need for special incentives for activities such as training no longer existed. However, states might respond to this option by reducing their administrative efforts, which could raise program costs and offset some of the federal savings. Specifically, states might make less of an effort to eliminate waste and abuse in payments to providers. Alternatively, this proposal might encourage states to provide less training for administrators and prospective foster and adoptive parents or to reduce the payments and other services that the programs offer.

Under the Unfunded Mandates Reform Act of 1995, reductions in federal funding for certain entitlement grant programs—including Foster Care and Adoption Assistance—are considered mandates on state governments if the states lack authority to amend their programmatic or financial responsibilities to offset the loss of funding. Because some states may not have sufficient flexibility within the Foster Care and Adoption Assistance programs to make such changes, this option could constitute an unfunded federal mandate on those jurisdictions under the law.